

433rd meeting of the Accounts Commission for Scotland

**Thursday 9 February 2017, 10.15am
in the offices of Audit Scotland, 102 West Port, Edinburgh**

Agenda

1. **Apologies for absence.**
 2. **Declarations of interest.**
 3. **Decisions on taking business in private:** The Commission will consider whether to take items 11 to 14 in private (* see note).
 4. **Minutes of meeting of 8 December 2016.**
 5. **Minutes of meeting of Audit Scotland Board of 27 October 2016.**
 6. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
 7. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.
 8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
 9. **Review of the local government annual audit reports 2015/16:** The Commission will consider a report by the Controller of Audit.
 10. **Briefing: Scottish budget:** The Commission will consider a report by the Director of Performance Audit and Best Value.
- The following items are proposed to be considered in private:****
11. **Local Government Benchmarking Framework: data outputs:** The Commission will consider a report by the Secretary to the Commission.
 12. **Overview of Local Government in Scotland: draft report:** The Commission will consider a report by the Director of Performance Audit and Best Value.
 13. **Review of audit quality:** The Commission will consider a report by the Assistant Auditor General.
 14. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 11 to 14 be considered in private because:

- Item 11 presents an update on data outputs from the Local Government Benchmarking Framework which have yet to be published in the public domain, and the Commission may wish to discuss confidential policy matters with representatives of the Framework.
- Item 12 proposes a draft audit report, which the Commission is to consider and consult appropriately with stakeholders if necessary before publishing.
- Item 13 proposes a report from the Assistant Auditor General on the quality of audit, in relation to which the Commission may wish to discuss confidential audit matters with the author.
- Item 14 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 8 December 2016	AC.2017.1.1
Agenda Item 5: Minutes of Audit Scotland Board 27 October 2016	AC.2017.1.2
Agenda Item 7: Report by Secretary to the Commission	AC.2017.1.3
Agenda Item 9: Report by Controller of Audit	AC.2017.1.4
Agenda Item 10: Report by the Director of Performance Audit and Best Value	AC.2017.1.5
Agenda Item 11: Report by Secretary to the Commission	AC.2017.1.6
Agenda Item 12: Report by the Director of Performance Audit and Best Value	AC.2017.1.7
Agenda Item 13: Report by the Assistant Auditor General	AC.2017.1.8

MEETING: 9 FEBRUARY 2017

MINUTES OF PREVIOUS MEETING

Minutes of the 432nd meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 8 December 2016, at 10.15am

PRESENT: Douglas Sinclair (Chair)
Alan Campbell
Sheila Gunn
Ronnie Hinds
Tim McKay
Stephen Moore
Graham Sharp
Pauline Weetman
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Anne Cairns, Manager – Benefits (Technical) [Item 11]
Antony Clark, Assistant Director, PABV [Item 10]
Russell Frith, Assistant Auditor General [Item 11]
Graeme Greenhill, Senior Manager, PABV [Item 10]
Peter Lindsay, Senior Audit Manager, ASG [Items 12 & 13]
Mark McCabe, Senior Manager, PABV [Items 10, 12 & 13]
Dave McConnell, Assistant Director, ASG [Items 12 & 13]
Mark MacPherson, Senior Manager, PABV [Item 10]
Dharshi Santhakumaran, Audit Manager, PABV [Items 12 & 13]
David Sim, Benefits Auditor, Audit Strategy [Item 11]

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 10 November 2016
5. Minutes of meeting of Financial Audit and Assurance Committee 24 November 2016
6. Minutes of meeting of Performance Audit Committee of 24 November 2016
7. Audit Scotland Board Update
8. Update report by the Secretary to the Accounts Commission
9. Update report by the Controller of Audit
10. Work Programme Refresh
11. Housing Benefit fraud arrangements
12. Audit of Best Value: East Dunbartonshire Council
13. Audit of Best Value: East Dunbartonshire Council
14. Commission business matters

1. Apologies for absence

It was noted that apologies for absence had been received from Sandy Cumming and Sophie Flemig.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 11, as a non-executive Director of the Wheatley Group, concerning its relationship with Glasgow City Council in relation to benefits administration.
- Christine May, in item 10, as Vice-Chair of Fife Cultural Trust, in relation to references to arm's length external organisations.
- Geraldine Wooley, in item 11, because a close family member is an adviser to the Scottish Government and a media commentator on benefits matters.

3. Decisions on taking business in private

It was agreed that item 13 be taken in private as it requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.

The Chair advised that there was no business for item 14 and thus this would not require discussion in private.

4. Minutes of meeting of 10 November 2016

The minutes of the meeting of 10 November 2016 were approved as a correct record.

Arising therefrom, the Commission noted advice from the Secretary that:

- In relation to item 9 (third bullet point), the Deputy Chair would be briefing the Local Government and Communities Committee at its meeting on 14 December on the Local Government Financial Overview.
- In relation to item 13 (third bullet point), the first meeting of the working group convened by the Scottish Government and council representatives to take forward the review of Best Value statutory guidance had taken place, and that Audit Scotland would act as an observer on the group.

5. Minutes of meeting of Financial Audit and Assurance Committee 24 November 2016

The minutes of the meeting of the Financial Audit and Assurance Committee of 24 November 2016 were approved as a correct record, subject to, in relation to item 4 (second bullet point):

- Inserting "index-linked" before "capital bond".
- Adding a sub-bullet thus: "that there was no indication of other authorities pursuing this approach".

6. Minutes of meeting of Performance Audit Committee of 24 November 2016

The minutes of the meeting of 24 November 2016 were approved as a correct record, subject to, in item 5, replacing the first bullet point with: "to endorse the emerging messages, subject to a number of revisions and other points to be

addressed by the audit team in drafting the report of the audit, in conjunction with the sponsors of the report, Douglas Sinclair and Ronnie Hinds”.

7. Audit Scotland Board Update

The Chair provided a verbal update on recent Audit Scotland Board activity.

During discussion, advice from the Secretary was noted that the papers presented by Audit Scotland to the Scottish Commission for Public Audit at its meeting on 21 December would be made available to members on the members’ portal.

8. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

Following discussion, the Commission agreed:

- To note advice from the Secretary that, in accordance with its agreed meeting schedule, there would be no meeting of the Commission in January 2017.
- In relation to paragraph 22, arising from a query from Tim McKay, to note advice from the Secretary that the Commission would consider the annual report of the Local Government Benchmarking Framework at its February 2017 meeting.
- In relation to paragraph 33, arising from a query from Stephen Moore, that as part of the schedule of speakers for Commission committee days, the Improvement Service be invited to discuss its work on change management.
 - *Action: Secretary*
- In relation to paragraph 37, arising from a query from Ronnie Hinds, to note the Commission’s ongoing interest in accountability matters around city deals, which would be part of its consideration of proposals for its work programme.

Following discussion, the Commission agreed to note the report.

9. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

The Commission noted the update.

10. Work programme refresh

The Commission considered a report by the Director of PABV setting out Audit Scotland’s proposals for the annual refresh of the Commission’s rolling work programme.

During discussion, the Commission agreed:

- To approve the proposed work programme, including detailed proposals for 2017/18 and 2018/19, subject to the following:
 - A performance audit on arm’s length external organisations be part of 2017/18 work.

- In relation to paragraph 46, that the following audits be included in the programme:
 - Value for money of capital financing models, including Non-Profit Distribution, Private Finance Initiative and Public Private Partnership
 - Reforming public services through better asset management
 - Housing.

Actions: Director of PABV

- To delegate to the Chair of the Commission the authority to finalise the programme following consultation with the Auditor General for Scotland, as a basis for consultation with stakeholders.
- To approve the proposed arrangements for consultation with stakeholders.
- To note that the Secretary will report back on the outcome of the consultation.

Actions: Secretary

- To note that an equality impact assessment on the work programme had been undertaken by Audit Scotland, to be considered by Audit Scotland's Equality and Diversity Steering Group published thereafter.
- That, in future such reports, the following features be considered:
 - More information on the phasing and timing of proposed work.
 - Clearer links between the proposed work and the Commission's strategy.

Action: Director of PABV

Thereafter, the Commission noted the report.

11. Housing benefit fraud arrangements

The Commission considered a report by the Assistant Auditor General, advising of the outcome of a recent review of housing benefit (HB) fraud investigation arrangements between local authorities and the Department for Work and Pensions (DWP) since the responsibility for HB counter-fraud work transferred from local authorities to DWP's Fraud and Error Service from July 2014.

Following discussion, the Commission:

- Endorsed the report, subject to the Assistant Auditor General considering how to incorporate in the report clearer links with other Commission reports in this regard.
- Agreed that the report be shared with the DWP, in particular highlighting conclusions affecting its responsibilities in this regard.
- Agreed that the Chair write to council chief executives and the chair of audit committees promoting the report and highlighting the Commission's view of the need for improvement in performance in this regard.

Actions: Secretary and Assistant Auditor General

12. Audit of Best Value: East Dunbartonshire Council

The Commission considered a report by the Secretary to the Commission seeking its consideration of the Controller of Audit's report of the Best Value audit of East Dunbartonshire Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

13. Audit of Best Value: East Dunbartonshire Council [in private]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the audit of Best Value in East Dunbartonshire Council.

Following discussion, the Commission agreed:

- To make findings, to be published on 15 December 2016.
- As part of those findings, to note that it will continue to have a close interest in how the Council is progressing and will require the Controller of Audit to update it by the end of 2017 through the annual audit and in the revised approach to auditing Best Value.

Actions: Controller of Audit and Secretary

14. Commission business matters

The Chair advised that there was no business for this item.

Thereafter, the meeting was closed.

Thursday 27 October 2016, 10.00

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

Present:

I Leitch (Chair)
C Gardner
H Logan
D Sinclair
R Griggs

In attendance:

D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
D Hanlon, Corporate Finance Manager
F Kordiak, Director of Audit Services Group
D Blattman, HR & OD Manager
J Webber, Senior Executive Assistant

1. Welcome and Apologies

There were no apologies.

2. Declarations of Interest

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan declared her membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. Chair's report

Ian Leitch advised that since the previous Board meeting he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer. He advised that he and Caroline Gardner had recently met with Colin Beattie, Chair of the Scottish Commission for Public Audit (SCPA) and that they would provide an update as part of the discussion on the SCPA official report at item 13.

The members welcomed the update.

4. Accountable Officer's report

Caroline Gardner provided an update on her activity since the previous board meeting. She advised of continued work to support the Scottish Parliament, noting the number of opportunities to work with SPICe and the Clerks, as well as her continued engagement with MSPs.

Caroline referred to the recent announcement by the Presiding Officer, Ken Macintosh MSP, that membership of the independent Commission on Parliamentary Reform will include external experts as well as MSPs.

Caroline invited the Board to note the number of recent publications and the widespread coverage received them, particularly for the NHS Overview and section 22 reports on NHS Tayside and NHS24 and the forthcoming attendance at the Scottish Government's consolidated accounts with the Public Audit and Post Legislation Scrutiny Committee on 10 November 2016.

The Board welcomed the update.

5. Accounts Commission Chair's report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised the Accounts Commission were looking forward to welcoming Kevin Stewart MSP, Minister for Local Government and Housing to their meeting on 10 November 2016. He also advised of workshops being held with Councils to discuss Best Value and the Accounts Commission's strategy.

Heather Logan enquired whether the Accounts Commission had received any feedback from Councils on fees. Douglas confirmed they had not received feedback to date and Russell Frith advised members that there would be an opportunity for feedback at Audit Scotland's forthcoming meeting with the local government Directors of Finance.

There was discussion of the issue of bonds by local authorities and Russell Frith advised of the specific role of the Audit Scotland audit team at Aberdeen City Council.

The Board welcomed the update.

6. Review of minutes

The Board considered the note of the meeting of the Board on 15 September 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to ensuring the action under item 10, Securing World Class Audit: Post Tender Review to provide more detail around recovery of monies revealed by the NFI and how this will be monitored in future and for this to be captured in the actions tracker also. In addition, there were minor amendments to the wording of item 9 to clearly state the distinct responsibilities of the Audit General for Scotland versus that of Audit Scotland and the re-ordering of paragraphs under item 11.

Action: Joy Webber, Senior Executive Assistant, to make the necessary amendments and publish the minute. October 2016

7. Review of actions tracker

The Chair invited members to note the action tracker and welcomed any comments or updates. Diane McGiffen advised that a verbal update on item ASB19 would be provided by Russell Frith when he discussed Developments in Audit which was item 9 on today's agenda.

The members noted the update.

8. Review of standing orders

Diane McGiffen introduced the report (Review of standing orders, which had been previously circulated and on which members of the Audit Committee had been consulted by correspondence.

Douglas Sinclair asked, as part of the reference in the Standing Orders to the quorum for board meetings, if members could nominate substitutes to attend on their behalf.

Following discussion, it was agreed that the Chief Operating Officer and the Chair would seek a legal view on the potential role of substitutes and the Chair advised the Board that a draft form of words on introducing a waiver for quorum members was being discussed with legal advisers for consideration by the Board.

Heather Logan suggested a minor amendment to paragraph 10, deleting 'less' and replacing this with 'fewer'.

Following further discussion, the Board approved the Standing Orders and noted the further advice being sought on the issues of waivers and substitutes for board members.

Action: Diane McGiffen, Chief Operating Officer, to seek advice on the attendance by the Office or Deputy Chair of the Accounts Commission. November 2016

9. Securing World Class Audit: Developments in audit

Russell Frith introduced the report on Developments in audit, which had been previously circulated.

Russell Frith invited members to note the basis of developments in audit was based on the Financial Reporting Council (FRC) report which in turn was focussed on quality of auditing in the private sector.

The Board welcomed the report and discussed whether this fully captured the ambition of Securing World Class Audit.

Caroline Gardner advised this formed part of the wider Becoming World Class programme, on which the Board received quarterly reports. It was agreed that the Board would welcome a more detailed briefing on the criteria that could be used to assess world class audit. Diane McGiffen advised that there had been a baseline report looking at international public audit agencies and that an update for that work was being considered as part of the review of quality. It was agreed to schedule a discussion in early 2017.

Action: Diane McGiffen, Chief Operating Officer, to schedule an update report on the Becoming World Class and world class audit. January 2017

10. Review of Remco performance and identifications of priority areas

Russel Griggs, Chair of Remco, introduced the report on Review of Remco performance and identifications of priority areas, which had been previously circulated and invited members to note the work of the Committee during 2015/16 before welcoming any comments on the priorities for 2016/17.

Following consideration, the members noted the performance of the Committee to date and welcomed the priorities as set out for 2016/17.

11. Building a Better Organisation: Update

Fiona Kordiak, Director of Audit Services Group and David Blattman, HR & OD Manager, joined the meeting.

Fiona Kordiak, Director of Audit Services Group, introduced the Building a Better Organisation: Update report, a copy of which had been previously circulated.

Fiona invited members to note progress to date on Building a Better Organisation which had reached a significant milestone with outline proposals to revise pay and progression arrangements to support the revised role profiles that had been developed. She advised that the proposals had been developed by the Institute for Employment Studies who had been appointed to provide professional advice and would be shared with colleagues at eight workshop sessions over the next few weeks.

The Board discussed the current grade, pay and reward system, recognising its complexity and the desire to simplify pay and career progression within Audit Scotland.

Fiona advised that she and David Blattman would next present the proposals to the Remuneration and Human Resources Committee in December, when members would receive an update on the feedback from and dialogue with colleagues.

Following discussion, the Board welcomed the update and opportunity to discuss the outline proposals.

12. UK & Ireland Supreme Audit Institutions meeting, 4 November 2016

Diane McGiffen, Chief Operating Officer, invited the Board to note the agenda for the meeting of the UK and Ireland Supreme Audit Institutions Meeting on 4 November 2016, which had been previously circulated, and advised she would report back to the Board on the meeting.

Action: Diane McGiffen, Chief Operating Officer, to report on the meeting of the UK & Ireland Supreme Audit Institutions meeting. January 2017

13. **SCPA Official Report, 28 September 2016**

The Chair invited members to note the SCPA Official Report of the meeting on 28 September 2016, a copy of which had been previously circulated.

Ian Leitch advised members of a further meeting between Colin Beattie, Chair of the SCPA, Caroline Gardner, Auditor General for Scotland and himself on Tuesday 25 October 2016. He advised that the discussion centred around the question in the SCPA's legacy report about whether Audit Scotland's governance arrangements were appropriate for the demands to be placed on the organisation given the Scottish Parliament's new financial powers. This is a matter that the SCPA may consider further this session and the Convenor had advised that he would work with the Chair and the Auditor General for Scotland to develop thinking further.

Caroline Gardner advised it had been a useful and informative meeting and she looked forward to continued engagement.

14. **Publication of reports**

The Board approved all reports for publication with the following exception:

- Item 11 - Building a Better Organisation update (statutory/security/legal - personal information)

Action: Diane McGiffen, Chief Operating Officer, to arrange to publish the reports on the Audit Scotland website alongside the approved minute. January 2017

15. **Any other business**

Heather Logan advised she would welcome an update on how the engagement with young people on the forward work programme had developed. Diane McGiffen advised Fraser McKinlay, Director of Performance Audit and Best Value, would share with the Board in January the forward programme of work in this area as part of the Making a Difference workstream under Becoming World Class.

Action: Fraser McKinlay, Director of Performance Audit and Best Value, to report on this to the Board in January 2017.

16. **Review of meeting**

The members took the opportunity to reflect on today's meeting, agreeing it had been informative and they welcomed the opportunity to discuss Building a Better Organisation as a work in progress ahead of the Remuneration and Human Resources Committee meeting on 9 December 2016 and valued the short report that provided the basis for discussion.

Heather asked about strategic planning for board meetings and Diane advised that members would be consulted by correspondence on draft proposals during November, now that the Board would not meet until January 2017.

17. **Date of next meeting**

It was noted that the next Audit Scotland Board meeting had been scheduled for 20 January 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

Russel Griggs submitted his apologies for the meeting on 20 January 2017.

MEETING: 9 FEBRUARY 2017

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the Commission members' extranet portal, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Publications

4. On 1 December, the Accounts Commission published [Falkirk Council: Best Value audit report](#). The Commission reported its disappointment with the Council's lack of progress in addressing the underlying need for better coordinated and more radical change. The Commission stressed that Falkirk urgently needs to develop a more robust approach to financial planning. The report received reasonable media coverage, featuring strongly in The Herald, Housing News, BBC Online and STV Online. The report has been downloaded 548 times and the podcast 170 times. Councillor Craig Martin, Leader of Falkirk Council said:

"The report has stated where progress is being made across a number of areas, however, we recognise more can be done to improve... The audit also comes only seven months after the previous report was completed so while progress has been made in some areas, additional time is needed to see through all of the recommendations."

5. The Council is to consider the report at its meeting on 22 February. Commission members Ronnie Hinds, Tim McKay and Pauline Weetman will meet representatives of the Council on 16 February.
6. On 15 December, the Commission published [East Dunbartonshire Council: Best Value audit report](#). The Commission found that much of the Council's transformation programme is behind schedule and that this must be rectified if the Council is to achieve £27.6 million in savings over the next three years. Key messages were well covered and the report featured in the Scotsman, BBC Online and radio bulletins. The report has been downloaded 371 times and the podcast 85 times.

7. The Council is to consider the report at its meeting on 16 March. Commission members Douglas Sinclair, Sheila Gunn and Christine May will meet representatives of the Council on 28 February.
8. The download statistics (with the increase from last month in brackets) for the reports published by the Commission over the last 12 months are shown below:

Report	Date	Report downloads	Report podcasts
East Dunbartonshire Council: Best Value audit report	15 Dec 2016	371	85
Falkirk Council: Best Value audit report	1 Dec 2016	548	170
Local government in Scotland: Financial Overview 2015/16.	29 Nov 2016	1722 (+521)	-
How Councils Work – Roles and working relationships in councils: are you still getting it right?	8 Nov 2016	2011 (+363)	-
School education impact report	18 Oct 2016	73 (0)	-
Angus Council: Audit of Best Value	4 Oct 2016	502 (+57)	-
Social Work in Scotland	22 Sept 2016	3281 (+438)	271 (0)
Maintaining Scotland's roads: a follow-up report	4 Aug 2016	1960 (+290)	208 (0)
South Ayrshire Council: Audit of Best Value and Community Planning	29 Jun 2016	803 (+56)	-
Accounts Commission annual report 2015/16	26 May 2016	806 (+35)	-
Accounts Commission Engagement strategy and engagement plan 2016/17	26 May 2016	415 (+29)	-
Accounts Commission Strategy and annual action plan 2016-21	26 May 2016	442 (+26)	-
Accounts Commission engagement plan 2015/16: Progress report	26 May 2016	133 (+18)	-
Accounts Commission Action plan 2015/16: Progress report	26 May 2016	157 (+19)	-
Code of audit practice 2016	26 May 2016	1126 (+105)	-
Reshaping Care for Older People – Impact Report	10 May 2016	869 (+87)	-
National Scrutiny Plan	31 Mar 2016	729 (+45)	-
Local Government Overview 2016	17 Mar 2016	4534 (+362)	253 (0)
Changing Models of Health and Social Care	10 Mar 2016	8940 (+680)	872 (0)
Community Planning update	3 Mar 2016	3345 (+176)	88 (0)
City of Edinburgh Council Best Value	25 Feb 2016	1266 (+79)	165(0)
Procurement in councils – impact report	8 Feb 2016	1317 (+49)	-

Other business

9. On 21 December, Ronnie Hinds, Alan Campbell and Stephen Moore met with representatives of Angus Council to discuss the Commission report on the [Audit of Best Value of the Council](#) which had been published on 4 October. The Council was represented by Cllr Iain Gaul (Council Leader and SNP Group Leader); Cllr Paul Valentine (Depute Leader of the Council); Cllr Brian Boyd (Convener of Scrutiny and Audit); Cllr Craig Fotheringham (Elected Member); Richard Stiff, Chief Executive; and Ian Lorimer, Head of Corporate Improvement & Finance. A private note of the meeting is available on the Commission members' extranet portal.
10. At its last meeting, the Commission endorsed a review of housing benefit (HB) fraud investigation arrangements between local authorities and the Department for Work and Pensions (DWP) since the responsibility for HB counter-fraud work transferred from local authorities to DWP's Fraud and Error Service from July 2014. The review has now been published on the Commission website, and the Chair has written to council chief executives and chairs of audit committees promoting the report and highlighting the Commission's view of the need for improvement in performance in this regard. He has also shared the report with the DWP, in particular highlighting conclusions affecting its responsibilities in this regard. Copies of the correspondence are available on the Commission members' extranet portal.
11. The Chair has written to local government pension scheme committee conveners and chairs (and copied to chairs of pension boards and to council chief executives) advising them of relevant matters in the Commission's financial overview of local government. Audit Scotland officials will also be attending a meeting of the National Pensions Scheme Advisory Board (rescheduled from a cancelled meeting on 22 November) to discuss the matters further.
12. On 13 January, the Chair submitted a response on behalf of the Commission to the Scottish Government's consultation *Empowering teachers, parents and communities to achieve excellence and equity in education: A governance review*. The response focuses on three questions that are of particular relevance to the Commission's 2014 performance audit on School Education. The response is attached.

Auditor General for Scotland

13. On 22 December, the Auditor General for Scotland published [The 2015/16 audit of the Scottish Policy Authority](#). The report details the scale of the financial challenge facing the SPA and Police Scotland. It is estimated that they could face a cumulative funding gap of almost £190 million by 2020/21. The section 22 report was the subject of intense media interest, with many news articles and interviews featuring the Auditor General for Scotland. The Auditor General's tweet on the report had more than 11,000 views in the morning of its release. The report has been downloaded 1,594 times and the podcast 481 times.

Audit Scotland

14. On 17 January, the Self-directed Support (SDS) audit team launched a [survey](#) asking users of SDS, carers and family members to share their experiences of using SDS in 2016 and 2017. The team are interested in hearing about the service user journey, from approaching the authorities for help, to having their support needs assessed and agreeing a care plan. The survey will run until 27 February. Findings will help to inform the joint Accounts Commission and Auditor General audit report on the subject.

15. On 21 December, Audit Scotland board members appeared before the Scottish Commission for Public Audit (SCPA) to present the [2017/18 Budget Proposal](#) and the Spring Budget Revision and [Fee Strategy](#). The proposals set out resource requirements to maintain and develop the quality of its audit work and support the Parliament as it takes on new financial powers. The SCPA noted that whilst it welcomes the reduction in fees and expenses being paid to external firms it was concerned that this could result in poorer quality audit work being undertaken. Audit Scotland outlined measures it is taking to mitigate against any impact of this kind and also noted that a review of its quality arrangements is currently underway and that the 2017-18 budget proposal included £100K to support an enhanced quality regime. Nevertheless, the SCPA stated that this is an issue which it intends to take further evidence on. The SCPA also noted that Audit Scotland has recently undertaken a review of its funding and fee setting arrangements. The SCPA approved the fee strategy. The SCPA agreed to write to the Finance Committee recommending that Audit Scotland's budget proposal be approved (see paragraph 33 of this paper). Commission members can view all papers on the Commission members' extranet portal.

Issues affecting local government

Scottish Government

16. On 12 December, the Scottish Government launched a [consultation](#) to consider making changes to the Councillors' Code of Conduct to address a specific issue on declarations of interest in connection with quasi-judicial or regulatory matters. The proposal is to "amend the Councillors' Code of Conduct so that councillors who are appointed or nominated by their councils to be members of an outside body would not be prevented from taking part in their council's discussion of a matter of a quasi-judicial or regulatory nature in which that other body had an interest solely because of their membership of that body." The consultation seeks views on whether changes should be made and if so how these should be implemented. The consultation can be viewed and responded to here and will close on 20 March. I will propose a draft response at the Commission's next meeting on 10 March.
17. On 20 December, the Cabinet Secretary for Finance and the Constitution, Derek Mackay, sent a letter to members of the Scottish Leaders Forum. The letter outlines the Scottish Government's position following the result of the EU referendum in a document entitled "[Scotland's Place in Europe](#)". The paper sets out the importance of continued European Single Market membership, as well as the Scottish Government's strategy for retaining membership of the European Single Market even if the UK Government chooses a different outcome.
18. On 5 January, the Scottish Government published the [Draft Gender Representation on Public Boards \(Scotland\) Bill](#) for consultation. The consultation provides an opportunity for public bodies to comment on the practical application of the bill and how this might be strengthened. The consultation will close on Friday 17 March. I do not intend submitting a response on behalf of the Commission.
19. On 10 January, the Scottish Government launched a planning reform [consultation](#) on the future of the Scottish Planning System. A number of proposals are set out with the aim of supporting sustainable economic development. Key recommendations include zoning more land for housing, removing the requirement to apply for permission for more types of development and promoting self-build. The consultation will close on 4 April. I will propose a draft response at the Commission's next meeting on 10 March.

Scottish Parliament

General

20. On 22 December, Ivan McKee MSP (SNP) noted Glasgow City Council's [plans](#) to outsource its ICT services and was critical of the process leading to this decision, critical that it had been taken "behind closed doors" and lacked scrutiny and transparency. He suggested that the Accounts Commission could investigate the issue. The Minister for Local Government and Housing, Kevin Stewart, acknowledged that the issue was within the remit of the Accounts Commission and noted that, as an independent body, it would be for it to decide whether or not to look at this particular case. The Controller of Audit has kept the Financial Audit and Assurance Committee apprised of the issue.
21. On 15 December, Cabinet Secretary for Finance and Constitution, Derek Mackay, proposed the Scottish Government's [Draft Budget](#). He made a series of proposals, including:
 - The basic rate of income tax will be frozen. The higher rate will be set at £43,430 and the cuts announced by the UK Government will not be passed on.
 - Around £470 million of funding will be made available for housing, in order to deliver the Scottish Government's house building targets.
 - £120m, rather than the previously mooted £100m, would be given directly to schools to tackle the attainment gap. The Cabinet Secretary confirmed previous reports that this would come from Scottish Government sources rather than councils, stating that councils would be able to keep any additional tax revenue.
 - There would be "no overall reduction" in [funding for local government](#) as a result of £107m of additional funding for social care, to help pay carers the living wage, as well as a £150m increase in capital spending and the previously announced £120m in attainment funding.
22. Since its announcement, there have been a number of [disagreements](#) over what the budget plans would actually mean for local government services. The Local Government and Communities Committee commented that the budget was "very difficult to follow", and stressed that Parliament must be clear on "exactly how much money local authorities can be expected to receive".
23. On 26 January, the Scottish Government's Budget (Scotland) Bill was introduced to Holyrood, marking the start of the formal legislative process. COSLA has since issued a [briefing](#) to MSPs, stating that "misrepresentations" about the proposed budget deal for councils was damaging for the role of local government.
24. On 20 December, [part 2](#) of the Community Empowerment (Scotland) Act 2015 regarding community planning came into force. New guidance on part two provides more details on statutory provisions, including what the principles of effective community planning should include, as well as information for community planning partnerships to develop their Local Outcome Improvement Plan and locality plans which are due to be published by 1 October 2017. Local Government Minister Kevin Stewart said:

"When people have greater control of their own future, they are more engaged and are able to tackle barriers to making their communities wealthier"

and fairer...By putting legislation in place, we are making it clear that consultation is no longer enough and that the participation of communities in decision making is vital.”

25. On 23 January, [part 5](#) of the Act, covering asset transfer, came into force. It allows community-led organisations to request to buy, lease or use any land or buildings belonging to local councils, Scottish Ministers and various other public bodies, provided it will benefit the local community.

Parliamentary Committees

Local Government and Communities Committee:

26. At its [meeting](#) on 11 January, the Committee took evidence from the Scottish Housing Regulator on its Annual Report and Accounts 2015/16 and from the Scottish Public Services Ombudsman on its Annual Report 2015-16. The committee agreed to defer considering this evidence until its next meeting on 18 January.
27. At its [meeting](#) on 18 January, the Committee took evidence from the Electoral Commission, Education Scotland, the Electoral Management Board for Scotland, the Electoral Registration Committee, Scottish Assessors Association and the Scottish Government on Scottish local government elections and voting. The Committee also considered the evidence heard at its meeting on 11 January and agreed to write to the Scottish Government in relation to the evidence from the Scottish Public Services Ombudsman.
28. At its [meeting](#) on 25 January, the Committee agreed draft letters to the Scottish Government and COSLA and also agreed to consider a report to the Culture, Tourism, Europe and External Relations Committee at a future meeting regarding the Implications for Scottish local government of the United Kingdom leaving the European Union.
29. On 27 January, the Committee published a [report](#) to the Finance Committee on the Scottish Government’s Draft Budget 2017-18. The report sets out the Committee’s findings in relation to its scrutiny of the Scottish Government’s draft budget 2017-18. The report states that the total allocation to local government in the 2017-18 Draft Budget is £10,131 million which is mostly made up of General Revenue Grant and Non-Domestic Rates Income, with smaller amounts for General Capital Grant and Specific (or ring-fenced) revenue and capital grants. The report makes reference to the Scottish Parliament Information Centre’s findings that the total Local Government budget has fallen by either 1.6 per cent in real terms (when compared to the Draft Budget 2016-17) or by 3.2 per cent in real terms (when compared to the Budget 2016-17).

Public Audit and Post Legislative Scrutiny Committee:

30. At its [meeting](#) on 12 January, the Committee took evidence on the Accounts Commission’s report “Local Government in Scotland: Financial overview 2015-16” from Ronnie Hinds, Deputy Chair, Fraser McKinlay, Controller of Audit, and Martin McLauchlan, Senior Auditor, Audit Scotland. Further information was requested by the Committee on a number of matters, which has been sent to the Committee and has been placed on the members’ portal.
31. At its [meeting](#) on 19 January, the Committee took evidence on the joint Accounts Commission and Auditor General for Scotland report “Maintaining Scotland’s Roads: A follow up report” from Fraser McKinlay, Controller of Audit; Graeme Greenhill, Senior

Manager; and Shelagh Stewart, Audit Manager, Audit Scotland. The Committee also took evidence from the Scottish Government and Transport Scotland. The Committee agreed to write to the Rural Economy and Connectivity Committee to highlight the report's findings.

Culture, Tourism, European and External Relations Committee:

32. On 20 January, the Committee published its first report of 2017 entitled "[Brexit: What Scotland thinks](#)." The report is a summary of evidence and emerging messages from over 150 submissions received by the Committee's inquiry into the implications of the outcome of the EU referendum on Scotland.

Finance and Constitution Committee:

33. At its [meetings](#) on 11 January and 16 January, the Committee considered the Draft Budget 2017-18. On 16 January, the Committee took evidence from the Cabinet Secretary for Finance and the Constitution on the expenditure proposals in the draft budget and on questions provided by members of the public via Twitter.
34. On 27 January, the Committee published its [report on the Draft Budget](#), which warns of a greater degree of uncertainty in the budget process due to new tax and borrowing powers, complexities related to the Fiscal Framework and the UK's decision to leave the European Union. In relation to local government, it advises that:

Due to the different presentation and sets of numbers relating to the local government settlement some Members were concerned about the level of financial resource available to Local Government in the settlement... The Committee agrees with the Local Government and Communities Committee that greater transparency is required in relation to the local government draft budget.

35. In particular, it notes that the Local Government and Communities Committee agrees with the Accounts Commission's view that "all local authorities should implement medium to long term financial planning to optimise service delivery."
36. The report contains a chapter on Audit Scotland and notes the recommendation of the Scottish Commission for Public Audit that Audit Scotland's budget be approved.

Current activity and news in Scottish local government

COSLA

37. On 15 December, COSLA President Councillor David O'Neill [responded](#) to the budget statement, stating:

"COSLA can never endorse a reduction to the core local government settlement as announced as part of the budget statement today... It is our understanding that the Scottish Government had significant additional cash for 2017/18 and therefore this decision will impact on services delivered by local government. We fully recognise that the Scottish government has made efforts to improve the settlement through their offer of a wider package including a major change on the council tax proposals... Councils will now consider the whole package as part of their budget considerations..."

38. In particular, COSLA has criticised the decision to offset significant cuts to the core grant with ring-fenced funding, stating that this leaves councils with less discretion to

spend on local priorities. The organisation is also calling for a “fundamental reform” of local taxation and for the status of local government to be constitutionally protected.

39. On 27 January, COSLA announced plans to launch a social media campaign called [#BudgetReality](#) which it claims will detail the real budget council have been given for the next year and will highlight the impact of reductions in specific service areas.
40. On 11 January, COSLA spokesperson for Development, Economy and Sustainability Stephen Hagan [responded](#) to the Scottish Government’s planning consultation, stating:

“Similar to the publication of the independent review last year, we are going to have to take our time to fully digest what is in the Scottish Government’s consultation... For COSLA the two most important issues are ensuring planning services are resourced to do the job effectively and that local people’s say in the system is maintained and, ideally, strengthened... COSLA will continue to be strong voice championing a better funded, responsive and representative local planning system that continues to shape better places where local people can live, work and play.”

Improvement Service

41. On 6 December 2016, East Ayrshire Council and the Improvement Service jointly held a [national conference](#) on community empowerment. The event attracted representatives from public sector agencies and councils across Scotland. Iain Murray from the Scottish Government Community Planning and Empowerment Unit provided the opening address. He said:

“Communities have a vital role to play in shaping and, where appropriate, delivering services locally. Events such as this one can help to demonstrate how public participation can make decision-making more democratic and public spending more equitable. Unleashing the potential within our communities can help us transform our services, making them better and more responsive to the needs and aspirations of our communities.”

Individual councils

42. On 1 December, four Scottish Councils received awards at the [Association for Public Excellence \(APSE\) awards 2016](#):
 - Inverclyde Council - Most improved performer: Roads, highways and winter maintenance
 - South Ayrshire Council – Most improved performer: Building maintenance
 - North Lanarkshire Council – Best performer: Environmental health
 - Dumfries and Galloway Council – Most improved performer: Parks, open spaces and horticultural services.
43. On 6 December, four Scottish councils were recognised for their excellence in public service at the [Scottish Public Service Awards](#). Winners are:
 - Renfrewshire Council – The Campbell Christie Public Service Reform Award
 - Dundee City Council – The Employee Development and Skills Award
 - Midlothian Council – The Policy Development Award
 - Aberdeen City Council – The Commercial Partnerships Award

44. On 7 December, the Scottish Cities Alliance (SCA) which represents the seven city authorities [announced](#) that it plans to go ahead with its open data program. Led by Aberdeen City Council, the SCA plans to develop “city-region open data eco systems where the public, third and private sectors collaborate to encourage data use, economic stimulation and creative approaches to solving civic challenges.” According to Ian Watt, Digital Transformation Manager at Aberdeen City Council, there will be opportunities for collaborative working across geographical boundaries, sharing best practice and essentially in developing a Scottish online platform where all the information is accessible in one place.
45. Various councils have announced intentions around council tax. For example, on 16 January, Glasgow City Council [announced](#) plans to increase council tax by three per cent in April. The council currently has a funding gap of £67 million and it is intended that the increase would raise over £7 million. Council Leader Frank McAveety said “raising council tax will support frontline services while protecting the most vulnerable in our city.” A final decision on Glasgow’s council tax is likely to be made in February.
46. On 19 January, Highland Council [launched](#) an engagement project with citizens over budget reductions. The project seeks feedback from local people and challenges them to balance the council’s books by using a [budgeting simulator](#), which will be open until 5 February. Budget Leader, Councillor Bill Fernie said:
- “I would encourage as many people as possible to have a go at this innovative tool...By participating and showing us how you would choose to allocate the budget, we will gain a clearer understanding of people’s priorities across the region as we move forward to set the budget on 16 February.”*
47. On 30 January, the Inverness and Highland City Region Deal was [formally signed](#). It is hoped the £315 million investment will improve access to jobs, education, digital connectivity, digital healthcare, skills, innovation and infrastructure for the area and across Scotland.
48. There have been a number of by-election results since my last report:
- On 28 November, SNP Councillor Brenda Dunro [gained a seat](#) for the Arbroath East and Lunan ward of Angus Council, following the resignation of Independent Councillor Bob Spink due to ill health.
 - On 5 December, Independent Councillor David Cheape [gained a seat](#) in the Carnoustie and District ward of Angus Council following the death of SNP Councillor Helen Oswald.
 - On 15 December, Alistair Suttie [gained a seat](#) for the SNP in the Leven, Kennoway and Largo ward of Fife Council, following the resignation of SNP Councillor Alistair Hunter.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman (SPSO)

49. The newsletter [SPSO – News December](#) summarises November 2016 case numbers, outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO’s work, including detailed investigations and decision reports, is available on the [Our findings](#) webpage. More detailed intelligence from the SPSO is considered on a six-monthly basis by the Financial Audit and Assurance Committee.

Commissioner for Ethical Standards in Public Life in Scotland

50. Since the previous meeting of the Commission, seven decisions on complaints relating to councillors have been published by the Commissioner. The Commissioner decided that in all cases individuals did not contravene the Councillors' Code of Conduct. The complaints were against:
- [Councillor William Bowles](#), Angus Council
 - [Councillor David Meikle](#), Glasgow City Council
 - [Councillor Pearl Paul](#), Moray Council
 - [Councillor Dennis Goldie](#), Falkirk Council
 - [Councillors Watson McAteer and Stuart Marshall](#), Scottish Borders Council
 - [Councillors Jim Sharkey and Anne Hall](#), Renfrewshire Council
 - [Councillor Peter de Vink](#), Midlothian Council.

Standards Commission for Scotland

51. There have been two hearings by the Standards Commission for Scotland since my last report:
- At a [hearing](#) on 24 November 2016, the Commission censured Councillor Frank Toner of West Lothian Council for failing to declare an interest in a discussion about the structure, progress and timescales of a Royal College of Paediatrics and Child Health's review of child health and medical paediatric inpatient services in a Lothian stakeholder group and also at an NHS Lothian Board meeting.
 - At a [hearing](#) on 24 January 2017, the Commission suspended Councillor William Cormie of Aberdeen City Council for four months, for breaches of the Councillors' Code of Conduct. The hearing panel found that Councillor Cormie made "adverse comments to the press which demonstrated that he had pre-judged a House of Multiple Occupation (HMO) licence application, before it had been heard by the Committee in November 2015." The panel also found that he had acted "improperly by repeatedly misrepresenting the basis of his press comments to Licensing Committee members and to senior staff, including denying that he had spoken to the press on the matter. He had also disregarded advice provided by Council officers that he should not have participated in decision making on the HMO application."
52. On 12 December, the Standards Commission published its quarterly [Professional Briefing](#). This edition contains information about the appointment of a new Convener for the Standards Commission, progress in the appointment of two new Members of the Commission and learning outcomes from recent hearings. Professor Kevin Dunion OBE has been appointed by the Scottish Parliamentary Corporate Body to be the new Convener of the Standards Commission as of 1 February 2017.

Her Majesty's Chief Inspector of Constabulary Scotland (HMICS)

53. HMICS has published an [update](#) on the action taken by Police Scotland and the Scottish Police Authority in response to the HMICS Independent Assurance Review of Police Scotland's Call Handling published in 2015. "Considerable progress" is reported to have been made with 16 of the 30 recommendations made in the final Assurance

Review Report now being fully discharged, 12 partially discharged and only two remaining open.

UK Parliament

General

54. On 24 January, the Supreme Court [ruled](#) that the UK Government cannot trigger Article 50 without an act of Parliament. A UK Government spokesperson said:

“The British people voted to leave the EU, and the government will deliver on their verdict – triggering Article 50, as planned, by the end of March. Today’s ruling does nothing to change that. It’s important to remember that Parliament backed the referendum by a margin of 6 to 1 and has already indicated its support for getting on with the process of exit to the timetable we have set out. We respect the Supreme Court’s decision, and will set out our next steps to Parliament shortly.”

55. A number of MPs have urged the UK Government to publish a white paper on negotiating objectives. The Supreme Court also ruled that the UK Government does not have to consult devolved parliaments before triggering Article 50. First Minister, Nicola Sturgeon will convene a meeting on the Standing Council on Europe to discuss the judgement. The First Minister has already said the Scottish Parliament would [vote on the triggering of Article 50](#) regardless of the ruling.
56. On 27 January, the UK Government published the [EU \(Notification of Withdrawal\) Bill 2016-17](#). The Bill received its second reading in the House of Commons on 31 January. Further amendments have also been added to the Bill. They relate to future relations with a number of EU bodies including Europol and the European Medicines Agency.
57. From 24 January to 21 February, the House of Commons Public Bill Committee is [inviting](#) written submissions on the Local Government Finance Bill. The Local Government Finance Bill was presented to the House of Commons on 13 January 2017 and aims to amend the framework legislation for business rates in England. The Bill will give the Greater London Authority and certain local authorities in England greater powers to impose levies on non-domestic ratepayers to raise money for projects expected to promote economic development.

Communities and Local Government Committee

58. On 5 December, the Communities and Local Government Committee [questioned](#) Andrew Percy MP, the Minister responsible for parks. The session focused on what the Department for Communities and Local Government is doing to support and protect parks throughout the UK. In particular, the Minister was questioned on the need to balance building more homes and protecting green spaces and about the use of data and benchmarking on the subject.
59. On 24 January, the Communities and Local Government Committee [launched](#) an inquiry into the overview and scrutiny of local government in England. The Committee will consider whether arrangements are working effectively and examine ways in which local communities can contribute to and monitor the work of their councils. The Committee is seeking responses (deadline 10 March) on a number of issues, such as:
- Whether scrutiny committees are effective in holding decision-makers to account

- The extent to which scrutiny committees operate with political impartiality and independence from executives
- Whether scrutiny officers are independent of and separate from those being scrutinised
- How chairs and members are selected
- The potential for local authority scrutiny to act as a voice for local service users
- How topics for scrutiny are selected
- Examples where scrutiny has worked well and not so well

Scottish Affairs Committee

60. The Scottish Affairs Committee is continuing its [inquiry](#) into sustainable employment in Scotland. On 10 January the Committee held an evidence session focusing on economic and industrial policy and business investment. The Committee took evidence from professionals from a variety of organisations including the University of Stirling, the Fraser of Allander Institute, Common Weal and the Jimmy Reid Foundation. Members discussed a number of issues including what can be done to attract more investment in Scotland and how to develop an economy which supports a more highly skilled workforce.

Public Accounts Committee

61. On 18 December, the Public Accounts Committee published [Devolution in England: governance, financial accountability and following the public pound](#). The report details findings from the Committee's discussions and evidence sessions on this topic and outlines concerns on accountability and scrutiny of public expenditure related to the devolution agenda. It draws a number of conclusions around the need for clarity in what the agenda is trying to achieve to ensure taxpayers understand "who is spending their money, how that money is allocated and where responsibility lies if the system fails to deliver good value or things go wrong."
62. On 11 January, the Public Accounts Committee continued its [inquiry](#) into the financial performance of NHS bodies, taking evidence from a number of professionals – including Enfield Clinical Commissioning Group, NHS Providers, NHS England, NHS Improvement and representatives from the Department of Health.
63. On 23 January, the Committee [examined](#) the financial sustainability of schools and plans to make savings of £3 billion by 2019-20. Members took evidence from a number of head teachers and representatives from the Department for Education and the Education Funding Authority.

Other UK Audit Bodies

National Audit Office

64. On 19 January, the NAO [published](#) an overview of the housing market in England, the Department for Communities and Local Government's housing strategy and the overall housing policy landscape. According to the NAO, house building has not kept pace with need. These findings are particularly acute in London - where it is projected there will be at least 227,000 new households formed each year between 2011 and 2021 – a significantly higher rate than the average of 166,000 extra homes in England over the last 10 years. The delivery of the government's million new homes ambition by 2020 will require 174,000 net homes to be built each year.

Wales Audit Office

65. On 26 January, the WAO published [Local Authority Funding of Third Sector Services](#). The report finds that Welsh local authorities are not always making the best use of the third sector and are not doing enough to ensure they are securing value for money. The WAO have developed a checklist to support local authorities to in developing their working practices with the third sector.
66. On 31 January, the WAO [issued](#) a press release following its fifth annual review of the financial management and governance of over 735 community councils across Wales. Findings revealed that over 200 councils (30%) received a qualified audit opinion on their 2015/16 accounts. The Auditor General for Wales, Huw Vaughan Thomas, said:

“The accountability and scrutiny that comes with the use of public money is growing ever tighter. Community councils are responsible for over £43m worth of funds and are likely to be devolved more responsibilities. It is worrying to see that a number of councils have qualified opinions which are easily avoidable and I would urge them to undertake an investigation into their current practice to ensure they are compliant with their legal requirements before the 2016-17 audit reviews.”

Other general

67. On 26 January, the Office of National Statistics published [UK index of services: Nov 2016 UK GDP, preliminary estimate: Oct to Dec 2016](#). The report finds that the economy grew 0.6% over the period and throughout 2016 there was a total growth of 2%. While this is lower than the 2.2% growth of 2015, the figure suggests that the immediate economic impact of the UK's decision to leave the European Union was not as strong as initially thought.

Conclusion

68. The Commission is invited to consider and note this report.

Paul Reilly
Secretary to the Accounts Commission
1 February 2017

Scottish Government consultation - Empowering teachers, parents and communities to achieve excellence and equity in education: A governance review

Response from the Accounts Commission

1. The Commission welcomes the opportunity to respond to the consultation paper.
2. The Accounts Commission published *School education* in June 2014, available [here](#), and *School education – Review and Impact* in October 2016, available [here](#). The focus of the audit was on how effectively and efficiently councils are using their resources to maximise pupil achievement in schools. The report includes a number of findings and recommendations that are relevant to the Scottish Government's school education governance review.
3. It may also be useful to note that the Commission's continuing interest in this area is reflected in our work programme, which we updated in December 2016 and on which we are currently consulting with councils. In the programme we have committed to undertake development and analytical work over the next two years to help shape the focus of a proposed joint performance audit with the Auditor General on this topic in 2019/20. This includes, in 2018/19, analysing Scottish Government investment in addressing the attainment gap and assessing its impact on delivering improved outcomes.

Question 3 - Should the above key principles underpin our approach to reform? Are there other principles which should be applied?

4. The Commission supports the key principles that the Scottish Government has set out. We expect the review to also recognise the importance of teacher leadership and quality as key factors in improving educational attainment. As we highlighted in our 2014 report, those councils that have improved attainment the most have focused on areas such as developing leadership and improving teacher quality. That echoes the 2007 report by McKinsey & Co which found that those pupils placed with the highest performing teachers progressed three times as fast as those with the lowest performing teachers. We note the report sets out that improving teacher quality depends on:
 - Being able to attract the best candidates
 - Providing high quality teacher training
 - Offering adequate salaries to retain staff
 - Having effective career development and support.
5. The basic principle of good governance is for individuals to have clearly defined functions and roles. If devolved school management is to be enhanced, so too must be the investment in improving the quality of leadership in schools to ensure that teachers and head teachers have the skills and capacity to take on any additional responsibilities. In our report, we highlighted the reductions in education staffing

numbers between 2010 and 2013, with the largest reductions in business managers based in schools and quality improvement officers.

Question 6 – How can children, parents, communities, employers, colleges, universities and others play a stronger role in school life? What actions should be taken to support this?

6. As part of our 2014 audit, we carried out an online survey with parents. This found that 58 per cent of those who responded would like to get more involved with their school. However parents identified lack of time as the key barrier to their further involvement. Other barriers identified by parents included lack of information on the school, a lack of opportunities to get involved, and not knowing how to get involved. Councils and schools need to work with parents to overcome these barriers to their involvement.

Question 10 - What services or functions are best delivered at a regional level? This may include functions or services currently delivered at a local or a national level.

Question 11 - What factors should be considered when establishing new educational regions?

7. The Commission notes the Scottish Government's commitment to school clusters and other forms of collaborative working between schools and other partners through the creation of proposed new educational regions. That is clearly a policy matter for the Government. Nevertheless, in its reporting of the performance of local government in its overview work, the Commission has reported on the scope of councils co-operating and working jointly with other councils to provide services and improve outcomes. Indeed, this is also the basis of the community planning agenda. The Commission would therefore ask how promoting, encouraging or even requiring such collaboration (perhaps the option of a duty to do so) has been considered by the Scottish Government in its proposals. We would expect such an approach to be the subject of audit.

Question 14 – Should the funding formula for schools be guided by the principles that it should support excellence and equity, be fair, simple, transparent, predictable and deliver value for money? Should other principles be used to inform the design of the formula?

8. The Commission welcomes these principles as important to supporting Best Value. However it would be interesting to know the rationale behind the use of the concept of value for money as opposed to the concept of best value where councils have to strike a balance between cost and quality. In the Commission's view it is important that the choice made should have a clear rationale. Much of our work underlines the need for councils to undertake robust appraisal of options in how services are delivered, and they need to be able to show the rationale used in their decisions.
9. We also note that the concept of value for money is complex in relation to funding for school education and, in our experience, there is not a shared understanding among stakeholders. It would be helpful to define what is meant here.

10. Our 2014 audit did not look at Scottish Government funding for education. However we looked at how councils are targeting their resources to support improvement and raise attainment. Most councils could provide examples of ways that they are targeting resources to raise attainment, but we found that they could make better use of performance information (such as pupil tracking and monitoring data) to help support decisions that have a financial impact, such as providing more staff to particular schools with low attainment levels. We recommended that councils need to fully understand what interventions are most effective when they make decisions about how resources are targeted. We also recommended that they need to ensure that they fully consider the impact of short-term savings on the long-term impact on attainment and overall pupil learning.

Question 16 – How could the accountability arrangements for education be improved?

11. The paper rightly highlights the fact that a system encouraging more empowerment requires clear and effective accountability. But it is not sufficient simply to say that schools should primarily be accountable to parents and their local communities. It will be essential that head teachers are held accountable for resources entrusted to them in line with the principles of Following the Public Pound. The system must be subject to audit and inspection.
12. The consultation does not comment on any future role of councils and councillors in securing improvement. Yet a key principle of good governance is the importance of taking informed and transparent decisions which is subject to effective scrutiny. Our 2014 report highlights the good practice of well-performing councils using the education committee as a vehicle with a continuing focus on improving attainment. Scrutiny is a key part of a councillor's role, not least in discharging the trust placed on them by the electorate. It will be important to clarify the role of councils and councillors in scrutiny and improvement.
13. One of our key findings was that there is scope for councils to improve their strategic planning for school education, and to strengthen the role of elected members in holding education services to account. We recommended that councils should ensure that education strategic documents include clear priorities and actions that set out what is to be achieved in the short, medium and long term. We found that elected members could have a more active role in scrutinising, challenging and improving education performance. Councils need to ensure that the information provided to education committees - on attainment, performance and wider achievement - is concise and relevant to allow elected members to do this. Performance management arrangements should monitor outcomes and report regularly on delivery against strategic objectives. Councils should also ensure that committees have the time and support to adequately challenge and hold education services to account. (We published a self-assessment checklist for elected members as a supplement to the report, available [here](#). This is intended to support them in holding education services to account. Following our impact work, we developed a second scrutiny supplement, available [here](#)).

MEETING: 9 FEBRUARY 2017

REPORT BY: CONTROLLER OF AUDIT

REVIEW OF THE LOCAL GOVERNMENT ANNUAL AUDIT REPORTS 2015/16

Purpose

1. This paper summarises the outcome of the review of the 2015/16 annual audit reports for councils and related local authority bodies. It forms part of a suite of assurance reports the Commission receives in relation to the audit work carried out on its behalf by Audit Scotland and external audit firms.
2. The paper also outlines how this report will change in the next iteration (March 2018) to reflect the new approach to auditing Best Value in Local Government.

Background

3. Under the Code of Audit Practice approved by the Accounts Commission and the Auditor General, auditors are required at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year’s audit. In local government, these reports are addressed to elected members and to me as Controller of Audit and are submitted by 30 September each year. The reports are public reports and are available on the websites of the audited bodies and Audit Scotland.
4. The reports are reviewed by my team to:
 - Identify high-level issues and themes for inclusion in the Commission’s annual local government overview reports.
 - Identify specific issues that I may wish to report to the Commission under my statutory reporting powers¹. In short, these provide for reports about any matters arising from the accounts of local authorities, or the auditing of those accounts; and, in certain specific situations, involving illegality or loss.
5. In practice, significant issues arising from the audits will be known to my team in advance of the annual audit reports, and reported to the Commission via the Financial Audit and Assurance Committee (FAAC). Statute allows me to report formally to the Commission – or the Commission to direct me to report – at any point throughout the audit year. However, including such issues in the annual audit report is the formal starting point for any statutory reporting.

Matters arising from the review of the 2015/16 annual audit reports

Common themes in the council annual audit reports

6. The primary themes arising from the review of the council annual audit reports are reflected in the Commission’s Local government in Scotland: Financial overview 2015/16, published 29 November 2016 and the draft report, Local Government in Scotland 2017: Performance and challenges report, due to be considered by the

¹ Sections 102(1) and 102(3) of the Local Government (Scotland) Act 1973

Commission at its February 2017 meeting and due for publication in March 2017. Detailed funding and spending analysis, including longer-term trend information is included in the Commission's Financial overview report. Given this significant development in the approach to local government overview reporting I have not restated the analysis in this report. The key messages from the financial overview are set out at Appendix 1.

7. Common themes identified in council Annual Audit Reports include:

- Audit opinions – none of the audit opinions were qualified.
- Financial performance – the aggregated results for all 32 councils show:
 - The total income in 2015/16 was £18.9 billion (2014/15: £18.3 billion).
 - £10.9 billion (58.0%) of the councils' income was Scottish Government funding (2014/15: £10.8 billion, 59%).
 - Total gross expenditure to provide council services was £18.3 billion (2014/15: £17.6 billion). The net cost of providing services (after accounting for service income) was £12.4 billion (2014/15: £12.0 billion), with the highest areas of expenditure seen in education and social work services (71 per cent of net spend).
 - The aggregate capital expenditure in 2015/16 amounted to £2.4 billion (2014/15: £2.2 billion). This compares to a total capital budget of £2.8 billion, resulting in a £0.4 billion underspend against budget (2014/15 underspend: 0.4 billion). Thirty councils reporting underspends against their 2015/16 capital budget.
 - Total assets owned by the councils' amounted to £44.2 billion (2014/15: £42.9 billion). Long term physical assets owned by the councils (property, plant and equipment) amounted to £38.3 billion (2014/15: £37.1 billion).
 - Councils' share of the local government pension scheme deficit was £7.6 billion (2014/15: £10.0 billion).
 - Councils' net debt (excluding Orkney and Shetland Islands councils) decreased slightly to £13.7 billion (2014/15: £13.8 billion), reflecting an increase in reserves. Long-term borrowing decreased by £0.2 billion to £10.9 billion.
 - Councils' aggregate usable reserves increased by five per cent to £2.5 billion (2014/15: £2.3 billion) although they have decreased for 8 councils. Of these 8, 3 (Fife, Aberdeen and Highland) showed decreases of over 10%.
- Auditors did not raise concerns about the immediate financial position of Scotland's councils but emphasise that substantial challenges lie ahead. Significant budget gaps for future years continue to be reported with budgets under increasing pressure from a decline in funding, rising demand for services and increasing costs.
- There is variation in how well councils have prepared for the financial challenges ahead. This includes:
 - the pace of implementing change/'transformation' programmes
 - whether and how effectively councils are using medium and longer term planning
 - whether corporate priorities are reflected in change/ 'transformation'

programmes

- whether there are clear links with management arrangements such as organisation-wide workforce planning and service planning.
- Auditors highlighted that there are significant variations in spend against budgets in some service areas in many councils. Service areas where councils commonly over or under spent against their budgets include social work and education services. A third of the reports highlighted an overspend in social services and a third an underspend in education services. The overspend reported in social services reflects a key message in the Commission's Social work in Scotland report, published in September 2016:

Councils' social work departments are facing significant challenges because of a combination of financial pressures caused by a real-terms reduction in overall council spending, demographic change, and the cost of implementing new legislation and policies. If councils and IJBs continue to provide services in the same way, we have estimated that these changes require councils' social work spending to increase by between £510 and £667 million by 2020 (16–21 per cent increase).

- In 2015/16, 15 councils planned to use reserves to support spending. Only seven did use reserves in this way. The forecast was for aggregate reserves to decrease but reserves have increased. Twenty-three councils increased their General Fund reserves, with an overall increase of 5.2 per cent. Some councils have actively built up reserve levels to support change programmes and anticipated budget gaps. Auditors highlight in reports that use of reserves to support day to day spending is not sustainable. Use of reserves needs to be carefully planned, and designed to invest in making changes for the future, particularly given these resources can only be used once.
- There were several references to the use of ALEOs in the reports. In 2015/16 some ALEOs have been amalgamated, two further culture and leisure trusts were established with some others trusts taking on a wider scope of services. SB Cares became operational in 2015/16 (providing adult social care in for Scottish Borders). Auditors also commented on some reviews and improvements to governance arrangements as well as where improvements were still needed. These issues will be considered further in the audit of ALEOs planned in the work programme for 2017/18.
- Auditors made some references to improvements in scrutiny but also made some comments about the need for improvement in the quality of reporting to support effective scrutiny and decision making.
- City Deals are a significant issue highlighted in a number of the annual audit reports. Three City Deals have been agreed so far across 11 councils in Scotland - Glasgow City Region City Deal (August 2014), Aberdeen City Region Deal (January 2016) and Inverness and Highland City Region Deal (March 2016). A further nine councils are currently developing City Region Deals for Edinburgh and South East Scotland and for Tay Cities. A joint Commission and Auditor General audit of City Deals is planned in the work programme for 2017/18.

Common themes identified in the annual audit reports of the Integrated Joint Boards (IJBs)

8. This is the first year annual audit reports have been produced for all 30 IJBs. The IJBs have statutory responsibilities to coordinate local health and social care services. NHS boards and councils delegate budgets to the IJB. It then uses this funding to commission the NHS board and council(s) to deliver services in line with its strategic plan.

9. Common themes arising from my initial review are:

- Audit opinions – none of the audit opinions were qualified.
- Budget setting for 2016/17 was affected by the NHS budget process taking place later than the IJBs, creating a period of uncertainty for planning and delivery of services.
- Arrangements to address overspends and budget savings need to improve to ensure these are achievable and progress against plans are monitored effectively by the boards.
- There is a spectrum of progress across the IJBs in terms of the development of arrangements, with some IJBs' arrangements more mature than others.
 - Fundamental governance structures and arrangements are viewed as appropriate.
 - Medium and long term financial planning needs to be developed.
 - Strategic plans are in place but there is a need for further development of performance management arrangements.
 - Some improvements are required in the presentation of accounts and reporting.

10. Given the Commission's statutory responsibility to audit IJBs, this is an area of significant interest to the Commission. The second report of the joint Commission and Auditor General's Health and Social Care Integration series is planned in the work programme for 2017/18. The issues raised within the annual audit reports will be considered as part of this work.

Common themes identified in the annual audit reports of other local government bodies

11. None of the audit opinions were qualified in the annual audit reports for other local government bodies, such as pension funds, transport partnerships, planning authorities and Valuation Joint Boards.
12. Pension Funds – In September 2016, the FAAC received a presentation providing an update on local government pension funds. The update highlighted the work of the main government and regulatory stakeholders in the local government pension's landscape. It also set out trend and benchmarking data across the Scottish funds. The Local Government Financial Overview reported on the performance of the pension funds. The Secretary provided information in his update report about ongoing dialogue between the Commission and relevant stakeholders on this issue.
13. Common themes in the annual audit reports for the 11 pension funds include:
- The volatile outlook for pension fund investments, particularly the uncertainties of Brexit, and the impact of cuts to staffing on pension funds. This brings a risk that councils as employers will be required to make higher contributions.
 - Pensions funds have in place long term deficit reduction plans (10-20 years) to ensure that they are fully funded i.e. that their assets at least equal their liabilities.
14. Transport partnerships – the common theme in the annual audit reports for the 8 transport partnerships is uncertainty over future funding for future projects given:
- Financial pressures in councils.

- Unknown impact of 'Brexit' on EU funding.
 - Potential impact of City Region Deals.
15. Other local government bodies – Future funding pressures and uncertainties is also a common theme in the annual audit reports for other authorities, including valuation joint boards and planning authorities such as Glasgow Clyde Valley Strategic Development Planning Authority. Auditors drew attention to the need for good financial management and planning, including scenario planning in response to this.

Other audit, assurance, intelligence and risks reports

16. In addition to the local government overview reports, the Commission has received a range of other reports and briefings throughout the year which reflect emerging issues, themes and risks in councils. These include:
- **The shared risk assessment process**, which was reported to the Commission in April 2016. I will be reporting in June to the Commission on the outcome of this year's shared risk assessment process.
 - **Current issues in local government**, including regular reports for the Commission's Financial Audit and Assurance Committee (FAAC).
 - **Cluster briefings** to the Commission's Performance Audit Committee, from the three policy cluster groups were provided highlighting current issues such as:
 - Devolved powers and responsibilities, City Deals, Local Government digital strategy [Public finances, Investment, Economic Development cluster].
 - Educational pathways for looked after children and children with additional support needs, children and young people's Act [Justice, Education and Lifelong learning].
 - Local government budget gaps, health and social care integration, community. empowerment, welfare reform, housing supply [Health, Care and Communities].
 - **Briefing reports on** new financial powers, city deals, health and social care. Integration.
 - **The transparency and quality** of audit activity was reported to the Commission in August 2016. The Commission agreed a number of drafting points for future reports and otherwise noted the report, the assurance that it provides and the proposed review of audit quality arrangements.
 - **Best Value** – the Commission published findings on 4 BV reports in the past year
 - South Ayrshire Council – published June 2016
 - Angus Council – published October 2016
 - Falkirk Council – published December 2016
 - East Dunbartonshire Council – published December 2016
- Common themes in these reports include:
- The importance of effective political and managerial leadership to deliver effective improvement.

- Sustaining or increasing the pace of work to deliver change and improvement programmes to address funding gaps.
- Ensuring there are clear priorities to underpin decision making, planning, change programmes and other improvement activity.
- Improving workforce planning to manage capacity effectively, reflecting priorities and responding to forecasted need. Workforce planning needs to be more effectively aligned with change and improvement programmes.
- Some improvements in transparency but there is a need for clearer reporting to councillors to support effective decision making and scrutiny.

Auditors will follow-up on the Commission's findings on these BV reports and report progress in the respective Annual Audit Reports in September 2017. I will bring the first of the new Best Value Assurance Reports to the Commission in spring 2017.

- Other reports the Commission has published this year include:
 - Community planning: an update, March 2016
 - Changing models of health and social care, March 2016
 - Maintaining Scotland's roads follow-up report, published August 2016
 - Social work in Scotland, September 2016
 - Reports on the Housing Benefit audit and the National Fraud Initiative
 - Impact reports on the Local Government Overview, Borrowing and Treasury Management, Scottish Fire and Rescue service, Reshaping care for older people.

17. Our correspondence arrangements contribute to our intelligence about audited bodies and local government more widely. Information about risks and audit work related to correspondence cases are highlighted to the Commission through the Current Issues reports presented to the Financial Audit and Assurance Committee. In 2015/16 the correspondence team dealt with 112 new cases related to the local government sector on 28 councils, with six councils accounting for 52 of the 112 cases:

- Argyll and Bute (10 cases, of which four were about the Castle Toward community buy-out).
- Aberdeen City (9 cases, of which seven were about the Marischal Square development).
- City of Edinburgh (9 cases, of which four relate to the issuing of statutory notices).
- Glasgow City (9 cases, of which 4 relate to the selling of Westhorn recreational ground to Celtic Football Club).
- Scottish Borders (8 cases, of which three relate to the waste management strategy).
- Highland (7 cases, of which three relate to the West Link road decision).

Of the 112 cases:

- 51 cases were shared with the audit team as intelligence to help plan future work
- 29 cases were redirected to the public body or an appropriate regulator
- 18 cases were addressed within our planned audit work
- 11 cases led to additional audit work

- 3 cases were outwith our remit or we were unable to assist.

We continue to improve the information and intelligence we obtain from our correspondence arrangements and we have started to include statistical information provided by the SPSO. This information contributes to intelligence supporting the new approach to auditing Best Value.

18. There were a number of issues in councils that I considered closely this year. This has involved regular detailed discussion over weeks (and in some cases over months) with auditors, councils, stakeholders and the Commission. I have briefed the Commission (and/or one of its committees) on these issues during the year.

- **Aberdeen City Council –**
 - costs and benefits associated with the Reclaiming Social Work model
 - use of a bond as means of funding the capital programme
- **Argyll & Bute Council –**
 - review of the 2016/17 budget setting process
- **Fife Council –**
 - Dunfermline Flood Prevention Scheme
 - exit packages given to three former council officers
- **Glasgow City Council –**
 - proposed joint venture model between Glasgow City Council, Wheatley Group and City Building
 - suspension of the Executive Director of Land and Environmental Services
- **City of Edinburgh Council –**
 - issues around construction of schools
- **North Lanarkshire Council –**
 - allegations of corrupt practices

Annual Assurance and Risks Report

19. This paper is the final annual Review of the Local Government Annual Audit Reports to the Commission. The new approach to auditing Best Value is now in the first year of implementation. The findings from this work will be reflected in a new Controller of Audit report to the Commission in March 2018, which will be an Annual Assurance and Risks Report (AARR).

20. The AARR will be the primary tool for me to report to the Commission about the collective intelligence on each of the Commission's Strategic Audit Priorities (SAPs), listed below:

- The clarity of council priorities and quality of long-term planning to achieve these.
- How effectively councils are evaluating and implementing options for significant changes in delivering services.
- How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.

- How effectively councils are involving citizens in decisions about services.
 - The quality of council public performance reporting to help citizens gauge improvement.
21. The review of the Annual Audit Reports for all local authorities will remain at the core of the AARR. It will provide a richer picture for the Commission, as the new approach to auditing Best Value matures and our audit intelligence on the wider scope of the annual audit develops.
 22. The AARR will also distil points of note from the Best Value Assurance Reports produced in the year. These will be a significant source of intelligence for considering performance in terms of the Commission's SAPs.
 23. The AARR will continue to consider the wider range of audit and assurance work brought to the Commission during the year, including:
 - Any statutory reports.
 - Controller of Audit updates on audit activity.
 - Current issues reports.
 - Performance audit reports.
 24. I will also draw on a wider range of information and intelligence gathered during the year, including, for example, further information from our correspondence work.
 25. The report will encompass my commentary on significant risks and trends identified in the local annual planning and shared risk assessment process. This will bring together into one report the review of audit activity over the past year and the collective picture of identified risks in the planning for work in the coming year.
 26. As well as setting out sector wide issues, trends and risks, the AARR will outline stories of note about individual councils. This may be to highlight specific risks or to set out examples of notable practice or achievement.

Conclusion

27. The Commission is asked to note the outcome of the review of annual audit reports for local government bodies.
28. The Commission is also asked to note the planned change in the Controller of Audit's report next year to an Annual Assurance and Risks Report, to reflect the Commission's Strategic Audit Priorities and the new approach to auditing Best Value.

Fraser McKinlay
Controller of Audit
1 February 2017

APPENDIX 1: LOCAL GOVERNMENT FINANCIAL OVERVIEW 2015/16 KEY MESSAGES

1. The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.
2. Significant challenges for local government finance lie ahead. Councils' budgets are under increasing pressure from a long-term decline in funding, rising demand for services and increasing costs, such as pensions. There is variation in how these pressures are affecting individual councils, with some overspending their total budgets or budgets for individual services such as social care. It is important that councils have effective budgetary control arrangements in place to minimise unplanned budget variances that can affect their financial position.
3. Councils need to change the way they work to deal with the financial challenges they face. All councils face future funding gaps that require further savings or a greater use of their reserves. There is variation in how well placed councils are to address these gaps.
4. Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council's financial position.

Income and spending

5. The overall financial health of local government was generally good in 2015/16 and there was a slight increase in overall reserves and a reduction in overall debt. Auditors did not raise concerns about the immediate financial position of Scotland's councils and, for the fifth year in a row, issued unqualified opinions on councils' accounts.
6. More than half of councils' income comes from the Scottish Government. Councils have experienced a long-term decline in their grant funding from the Scottish Government. This is expected to continue to fall in future, putting greater pressure on budgets.
7. Councils have managed their finances well so far in responding to the pressures they face. In 2015/16, 15 councils planned to use some of their reserves to support spending and, across local government, revenue reserves were forecast to decrease. However, only seven councils drew on their reserves and, overall, revenue reserves increased in 2015/16.
8. Councils spent £19.5 billion in 2015/16. Spending on providing services remains lower than in 2011/12, but is increasing in key services, most noticeably in social care because of rising demand from an ageing population. Many councils overspent their social care budgets and this poses a risk to their longer-term financial position. Councils need to ensure budgets reflect true spending patterns so that the impact of current spending on their financial position is clearly understood.
9. Over and above growing demands on services, councils need to manage other financial pressures such as increasing pension costs and wage inflation. It is essential that councils have long-term financial strategies and plans in place that align with their priorities and are supported by medium-term financial plans and budget forecasts.

Financial outlook

10. By the end of 2015/16, usable reserves had risen by five per cent across local government and net debt decreased slightly for the second year in a row. Some councils are building up reserves and reducing borrowing in anticipation of further funding reductions.
11. Councils' net debt currently stands at £13.72 billion. Councils currently spend around £1.5 billion a year on the associated interest and repayments. The proportion of their income that councils spend on servicing debt varies and this has direct implications for the amount available to spend on services.
12. Local Government Pension Scheme (LGPS) deficits decreased from £10.0 billion to £7.6 billion in 2015/16. Despite this, councils and pension funds continue to face challenges from below-target or negative returns on investments and increasing administration costs.
13. All councils face future funding gaps and there is significant variation in how well placed individual councils are to address them. Councils will need to make further savings and/or generate additional income as relying on reserves is not sustainable. Opportunities to make savings are partly affected by national policy commitments and the costs of servicing debt. Councils' ability to make savings will also be influenced by the level of savings they have already made and the extent of their plans for transforming how services are delivered. It is therefore important that councils' savings plans are achievable within the timescales required.
14. Councils face tough decisions around their finances that require strong leadership and sound financial management. Long-term financial strategies must be in place to ensure council spending is aligned with priorities. Decisions need to be informed by well-developed medium-term financial plans and budget forecasts that allow councillors and officers to assess the impact of approved spending on their longer-term financial position.

MEETING 9 FEBRUARY 2017

REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

SCOTTISH GOVERNMENT DRAFT BUDGET 2017/18

Purpose

1. The purpose of this paper is to provide the Commission with a briefing on the Scottish Government's Draft Budget 2017/18, highlighting some of the key implications for local government finances.

Background

2. On 15 December 2016, the Scottish Government published its draft budget for 2017/18. This followed the UK Government's Autumn Budget Statement published on 23 November 2016 which outlined UK spending plans, including spending allocations for Scotland, up to 2020/21.
3. This is the first budget in which the Scottish Government is making use of powers devolved through the Scotland Act 2016. This includes newly devolved powers over income tax. This means that more of the money spent in Scotland from 2017/18 onwards will be funded from revenue collected in Scotland, through a combination of national and local taxation.
4. Since the publication Draft Budget 2017/18 and the accompanying local government finance circular, there have been a number of differing interpretations of what the implications are for local government funding. Throughout this paper we have compared Draft Budget 2017/18 figures to 2016/17 Budget figures. This is our standard approach and means we are comparing the spending plans for 2017/18 against the most current figures for the previous year.
5. When comparing funding for local government our focus remains on the local government funding settlement which forms the core budget for councils (Exhibit 4). This means we exclude any additional funding that the Scottish Government may cite as support for local government that is not included in the settlement. The largest element of this continues to be Health and Social Care Integration funding (£250 million in 2016/17 and £307 million in 2017/18 in cash terms). This is included within the Scottish Government's Health and Sport Portfolio budget allocation. It does not form part of the Communities, Social Security and Equalities portfolio or the core funding settlement for councils.
6. The main sources for this briefing are the Scottish Government's draft budget for 2017/18; the draft local government finance settlement published on the same day as the draft budget and the Scottish Parliament's associated briefing paper.¹

Scottish Government budgets to 2019/20

7. Overall, the Scottish Departmental Expenditure Limit (DEL) budget will decrease in real terms by 0.9 per cent between 2016/17 and 2019/20 from £29,050 million to £28,784

¹ *Scottish Budget: Draft Budget 2017/18*, Scottish Government, December 2016. *Local Government Finance Circular 09/2016*, Scottish Government, December 2016. *Financial Scrutiny Unit briefing: Draft Budget 2017-18*, Scottish Parliament Information Centre, December 2016.

million. The revenue DEL budget, used for day-to-day spending such as staff costs, will decrease by 3.1 per cent to £25,272 million between 2016/17 and 2019/20.² By contrast, the capital DEL budget, used for paying upfront construction and large-scale maintenance costs, will increase by 15.2 per cent to £3,330 million over the same period (Exhibit 1).

Exhibit 1: Scottish Government budgets, 2016/17 to 2019/20, £m in real terms

2016/17 prices	2016/17	2017/18	2018/19	2019/20	Change 2016/17 to 2019/20
Revenue DEL	26,088	26,124	25,631	25,272	-3.1%
Capital DEL	2,891	3,043	3,188	3,330	15.2%
Net DEL Adjustment	71	70	99	182	
Total DEL	29,050	29,236	28,919	28,784	-0.9%
Capital borrowing limits	316	444	434	427	
Capital DEL (<i>including maximum capital borrowing</i>)	3,207	3,486	3,622	3,757	17.1%

*Total DEL excludes non-cash DEL amounts (approx. £1 billion per year) which have yet to be confirmed by HM Treasury and allocations for financial transactions (approx. £0.2-0.3 billion per year).

8. The Scottish Government is able to borrow up to 15 per cent of its overall DEL Capital Borrowing limit of £3 billion for further capital investment. This is equivalent to approximately £450 million per annum. If the maximum capital borrowing powers are used, this will be equivalent to £1,305 million in real terms between 2017/18 and 2019/20. If the maximum capital borrowing limits are used then the overall capital DEL budget will increase by 17.1 per cent from £3,207 million to £3,757 million between 2016/17 and 2019/20.
9. The Scottish Government has only published detailed spending plans covering one year, 2017/18. There is no breakdown by main portfolio area for the remaining years covered by the UK spending plans to 2020/21. Therefore it is difficult to know how future annual budgets will be allocated to public bodies in Scotland beyond next year. However, it is clear that the availability of public finances will continue to tighten over the medium term.
10. The 2017/18 draft budget will operate under the Fiscal Framework established in Support of the Scotland Act 2016. This forms the basis of the annual Block Grant Adjustment (BGA). To reflect the retention of forecast income tax and other devolved taxes the block grant will be adjusted according to an initial baseline adjustment (based on tax receipts in 2016/17) and an indexation mechanism. The Scottish Government has forecast the net effect of this for 2017/18 will be an increase in the DEL budget of £71 million (Exhibit 1).
11. Draft Budget 2017/18 assigns a DEL budget to each of the Scottish Government's 12 major portfolios. Communities, Social Security and Equalities (which includes the allocation to local government) is one of four portfolios where spending limits have reduced in real terms, with reduction of £24.4 million (1.2 per cent) to just over £8.3 billion. Within this the local government allocation has reduced by £126.7 million (0.3 per cent) in real terms.³
12. In addition to the DEL budget, £6,555 million of Annually Managed Expenditure (AME) is included within the overall Scottish budget in 2017/18. This covers spending which is demand-led and often difficult to predict and therefore likely to vary from year to year.

² Excludes non-cash DEL amounts which have yet to be confirmed by HM Treasury.

³ These figures are derived from different DEL totals than those in Exhibit 1 as they include capital borrowing limits (approx. £450million) and non-cash DEL amounts (approx. £1 billion) but exclude funding for the Scottish Parliament and Audit Scotland (approx. £100m).

The most significant elements of the AME budget relate to NHS and teachers' pensions (£3,300 million) and the redistribution of non-domestic rates income (£2,606 million).

Local government

13. The total allocation to local government in Draft Budget 2017/18 is £10,131.1 million. This is a reduction of 3.2 per cent (or £327 million) in real terms. This includes £2,606 million from non-domestic rates income which is expected to decrease by 7.2 per cent in real terms from 2016/17.
14. Exhibit 2 below shows how the composition of the 2017/18 local government allocation has changed from 2016/17. The Scottish Government guarantees the combined general revenue grant and non-domestic rates income figure, approved by Parliament, to each local authority. For example, a reduction in non-domestic rates income is compensated for by an increase in the general revenue grant and vice versa.

Exhibit 2: Local government funding allocation, 2016/17 and 2017/18, £m in real terms

Local Government	2016/17 (£m)	2017/18 (£m) (cash)	2017/18 (£m) (real)	Real terms change (£m)	Real terms change (%)
General Revenue Grant	6,819.4	6,557.8	6,463.9	-355.5	-5.2%
Non Domestic Rates (AME)	2,768.5	2,605.8	2,568.5	-200.0	-7.2%
Support for Capital	506.5	623.1	614.2	107.7	21.3%
Specific Revenue Grants	92.5	211.0	208.0	115.5	124.8%
Specific Capital Grants	126.2	133.4	131.5	5.3	4.2%
Total Local Government	10,313.1	10,131.1	9,986.1	-327.0	-3.2%
<i>Total Revenue and NDR</i>	<i>9,680.4</i>	<i>9,374.6</i>	<i>9,240.4</i>	<i>-440.0</i>	<i>-4.5%</i>
<i>Total Capital</i>	<i>632.7</i>	<i>756.5</i>	<i>745.7</i>	<i>113.0</i>	<i>17.9%</i>

15. The large increase in capital funding between 2016/17 and 2017/18 is primarily due to earlier reprofiling of around £150 million from 2016/17 capital support into future years. This is due to be added back to local government capital allocations between 2017/18 and 2019/20 but the 2017/18 allocation does not include any of the £150 million.
16. Specific revenue and capital grants represent funds held within Scottish Government portfolios outwith Communities, Social Security and Equalities that are made available directly to councils. They are included within the local government funding settlement.
17. For the first time and in addition to the above funding the Draft Budget 2017/18 includes a budget allocation entitled "other sources of support". As detailed in Exhibit 3, in 2016/17 £250 million of the Health portfolio budget has been specifically allocated to support Health and Social Care Integration Authorities. In 2017/18 additional support is as follows:
 - £111 million of income resulting from Scottish Government reforms to council tax (specifically relating to higher banded properties).
 - £357 million of Health and Social Care integration income. This includes £250 million of integration funding (as in 2016/17) and an additional £107 million to support the implementation of the living wage for Health and Social Care staff.

Exhibit 3: Local government funding allocations and other sources of support, 2016/17 and 2017/18

Local Government	2016/17 (£m)	2017/18 (£m) (cash)	2017/18 (£m) (real)	Real terms change (£m)	Real terms change (%)
Total Local Government	10,313.1	10,131.1	9,986.1	-327.0	-3.2%
Council Tax Reform Income	0.0	111.0	109.4	109.4	
Health and Social Care Integration	250.0	357.0	351.9	101.9	40.8%
Total Local Government including other sources of support	10,563.1	10,599.1	10,447.4	-115.7	-1.1%

The local government funding settlement 2017/18

18. As in previous years, local authorities are required to agree joint priorities with the Scottish Government in order to access the full funding allocation, for example, maintaining teacher numbers. At the time of preparing this paper discussions between COSLA, representing 28 of the 32 councils, and the Scottish Government about these joint priorities are ongoing.
19. The Scottish Government has issued provisional funding allocations to each local authority. The provisional local government funding settlement for 2017/18 is £10,252.9 million. This is approximately £122 million more than the £10,131.1 million that the total local government figure in Draft Budget 2017/18 (as outlined in paragraph 13 above) due to a number of small funds included in the settlement that are excluded from the Draft Budget. Total funding for 2017/18 is equivalent to a 2.0 per cent (£205.5 million) real terms reduction from 2016/17 (Exhibit 4).

Exhibit 4: Local government funding allocations for 2016/17 and provisional allocations for 2017/18

Local Government	2016/17 (£m)	2017/18 (£m) (cash)	2017/18 (£m) (real)	Real terms change (£m)	Real terms change (%)
General Revenue Grant	6,845.3	6,679.7	6,584.0	-261.3	-3.8%
Non Domestic Rates (AME)	2,768.5	2,605.8	2,568.5	-200.0	-7.2%
Specific Revenue Grants	91.0	211.0	207.9	117.0	128.6%
Total Revenue	9,704.8	9,496.4	9,360.5	-344.3	-3.5%
National/Specific Revenue Funding	98.0	151.5	149.4	51.4	52.5%
Distributable Revenue Funding	9,606.8	9,344.9	9,211.1	-395.7	-4.1%
Total Capital funding	606.9	756.5	745.7	138.8	22.9%
Distributed to SPT	16.0	20.1	19.8	3.8	23.8%
Capital grant funding	590.9	736.4	725.8	135.0	22.8%
Total Funding	10,311.7	10,252.9	10,106.1	-205.5	-2.0%

20. These provisional allocations form the basis for the annual consultation between the Scottish Government and COSLA prior to formal Scottish Parliament approval in late February 2017.
21. Following agreement of specific national items, the remaining revenue and capital funding is distributed to each of Scotland's 32 councils. Details of the provisional allocations are at Appendix A. The most significant differences between the circular totals and Draft Budget 2017/18 relate to the items mentioned in paragraph 17. The settlement assumes council tax reform income of £110.5 million but excludes all health and social care integration funding.
22. 2016/17 was the ninth consecutive year of the council tax freeze which will be lifted from 2017/18 allowing councils to increase charges by a maximum of three per cent. This means that revenue allocations will no longer include an additional £70 million a year to compensate for councils maintaining the council tax freeze. It is estimated that if all councils increase charges by the maximum allowable, this will raise around £70 million, in addition to income that will be raised through the Scottish Government's council tax reforms.

23. Councils will not formally set their council tax policies until setting their budgets for 2017/18 but early indications are that not all 32 councils intend to increase their council tax by the allowed maximum of 3 per cent. Councils electing to continue to the council tax freeze or for increases of less than 3 per cent mean that it is unlikely that the £70 million estimate will be met.

Related issues

24. Within the Social Security section of the Communities, Social Security and Equalities portfolio, the Scottish Government announced funding totalling £95.9 million in Draft Budget 2017/18 to offset some funding reductions arising from UK wide welfare reforms. This included:
- £38.0 million for the Scottish Welfare Fund
 - £47.0 million for discretionary housing payments
 - £10.9 million of other discretionary payment costs relating to areas other than housing payments.
25. A number of related documents were published by the Scottish Government alongside the draft budget for 2017/18 and these may have implications for local government. These included:
- Public Sector Pay Policy 2017/18
 - Equality Statement Scottish Draft Budget 2017/18
 - Scotland Performs Update

A summary of relevant points from these publications is included in Appendix B.

Next steps

26. The Draft Budget 2017/18 has now passed through the public consultation and Parliamentary Subject Committee scrutiny stages. Numerous Committees, including the Local Government and Communities and Finance Committees, have considered evidence from Cabinet Secretaries and published Committee Reports. A Draft Budget Bill has now been introduced to parliament and MSPs are due to vote on the general principles of Draft Budget 2017/18 following a Stage 1 debate on Thursday 2 February 2017.
27. It is currently expected the Budget Bill process and debates will take place in February and March and that the Bill will receive Royal Assent in March.
28. The Local Government Finance Settlement will follow its own parliamentary procedure in parallel with the formal budget process. It is expected this will result in the Local Government Finance (Scotland) Order 2017 being presented to the Scottish Parliament in late February or early March, individual local authorities agreeing their budgets in February or March, and the Local Government Finance Amendment Order being laid and debated in Parliament in March.
29. The Director of Performance Audit and Secretary to the Commission will provide verbal updates to the Commission on the parliamentary progress of the 2017/18 budget at the Accounts Commission meeting on 9 March 2017.
30. We are also currently in discussions with other organisations, including SPICe, to make arrangements to discuss different approaches to analysing and presenting the Scottish

Government budget (specifically, funding for local government). The Director of Performance Audit and Secretary to the Commission will provide verbal updates to the Commission on progress in relation to this ongoing work.

Forthcoming related Accounts Commission reports

31. The Accounts Commission will publish its report *Local government in Scotland 2017: Performance and challenges* on 09 March 2017 and is considering a draft of this report at this meeting.
32. In addition, the Auditor General for Scotland will publish her report on Scotland's new financial powers, *Managing new financial powers: an update*, in late March 2017.

Conclusion

33. The Commission is invited to note this report.

Fraser McKinlay
Director of Performance Audit and Best Value
03 February 2017

APPENDIX A:
Local government total revenue allocations, 2016/17 and 2017/18, in real terms

Council	2016/17			2017/18			Change in total %
	Total Rev	NDR	Other Rev	Total Rev	NDR	Other Rev	
Aberdeen	331.0	215.6	115.4	313.1	198.0	115.1	-5.4%
Aberdeenshire	412.9	98.5	314.5	393.9	92.3	301.6	-4.6%
Angus	198.8	29.4	169.4	190.7	26.2	164.4	-4.1%
Argyll & Bute	197.0	30.4	166.6	187.3	28.5	158.8	-4.9%
Clackmannanshire	94.2	16.3	78.0	90.2	14.4	75.8	-4.3%
Dumfries & Galloway	283.6	48.0	235.6	271.0	43.9	227.2	-4.4%
Dundee	286.1	71.0	215.1	278.4	64.3	214.2	-2.7%
East Ayrshire	223.9	30.2	193.7	215.2	28.3	186.9	-3.9%
East Dunbartonshire	185.1	25.6	159.6	174.8	22.7	152.1	-5.6%
East Lothian	168.6	24.4	144.3	162.2	23.7	138.6	-3.8%
East Renfrewshire	178.0	15.6	162.4	169.5	13.9	155.6	-4.8%
Edinburgh	719.8	374.7	345.1	681.7	342.1	339.6	-5.3%
Eilean Siar	97.7	8.0	89.7	92.4	7.7	84.7	-5.4%
Falkirk	274.7	68.0	206.6	264.0	63.0	200.9	-3.9%
Fife	626.8	183.3	443.5	604.2	164.8	439.4	-3.6%
Glasgow	1,225.0	373.4	851.6	1,184.2	359.6	824.6	-3.3%
Highland	441.6	127.7	313.9	423.1	118.0	305.1	-4.2%
Inverclyde	164.3	23.3	141.0	157.1	20.5	136.6	-4.4%
Midlothian	151.9	32.0	119.9	146.7	28.2	118.5	-3.4%
Moray	156.7	35.6	121.1	150.0	32.2	117.8	-4.3%
North Ayrshire	268.3	41.5	226.8	259.8	39.1	220.7	-3.2%
North Lanarkshire	607.8	120.5	487.2	582.7	110.3	472.4	-4.1%
Orkney	68.0	9.9	58.2	65.2	9.3	55.8	-4.2%
Perth and Kinross	244.7	57.6	187.2	235.0	50.1	184.9	-4.0%
Renfrewshire	305.1	96.1	209.0	292.2	95.3	196.9	-4.2%
Scottish Borders	203.6	33.6	170.1	194.8	31.5	163.3	-4.4%
Shetland	82.6	17.8	64.8	78.0	22.4	55.6	-5.6%
South Ayrshire	198.9	40.8	158.2	190.1	38.3	151.8	-4.4%
South Lanarkshire	553.7	303.1	250.6	530.8	277.4	253.4	-4.2%
Stirling	164.4	46.2	118.2	158.8	41.3	117.6	-3.4%
West Dunbartonshire	185.0	82.8	102.2	178.0	74.5	103.5	-3.8%
West Lothian	306.5	87.7	218.8	295.9	86.8	209.1	-3.5%
Total	9,606.8	2,768.5	6,838.3	9,211.1	2,568.5	6,642.6	-4.1%

Source: *Local Government Finance Circular 9/2016*, Scottish Government, December 2016. Distributable revenue figures include general revenue grant, some specific revenue grants and the distribution of non-domestic rates income. There are minor differences in the figures outlined in Draft Budget 2017/18 and those in the Local Government Finance Circular. This is mainly due to the circular including a small number of funds, totalling approximately £120 million, which are not included with the draft budget.

Local government total capital allocations, 2016/17 and 2017/18, in real terms

£million	2016/17	2017/18	Change in
Council	Total Cap	Total Cap	total %
Aberdeen	19.3	24.7	28.1%
Aberdeenshire	29.9	30.3	1.5%
Angus	12.5	11.5	-7.4%
Argyll & Bute	10.6	13.7	29.2%
Clackmannanshire	4.5	5.6	22.8%
Dumfries & Galloway	17.3	22.1	27.6%
Dundee	20.6	25.7	25.1%
East Ayrshire	9.1	14.7	60.6%
East Dunbartonshire	7.7	9.8	27.2%
East Lothian	9.1	11.6	28.6%
East Renfrewshire	5.8	7.3	25.9%
Edinburgh	68.8	80.1	16.3%
Eilean Siar	7.1	8.9	25.6%
Falkirk	13.4	17.1	27.5%
Fife	27.4	35.1	28.2%
Glasgow	124.5	139.7	12.2%
Highland	27.8	34.4	23.7%
Inverclyde	7.1	9.2	29.6%
Midlothian	7.4	9.3	24.8%
Moray	7.2	8.2	13.4%
North Ayrshire	13.8	31.3	126.8%
North Lanarkshire	26.7	33.6	25.9%
Orkney	6.7	6.6	-1.4%
Perth and Kinross	13.8	17.5	26.2%
Renfrewshire	13.0	16.7	28.1%
Scottish Borders	12.9	17.1	32.2%
Shetland	5.6	6.8	22.4%
South Ayrshire	9.0	11.4	26.5%
South Lanarkshire	23.3	29.9	28.0%
Stirling	9.2	10.7	16.4%
West Dunbartonshire	7.5	9.8	31.1%
West Lothian	12.2	15.5	27.2%
Total	590.9	725.8	22.8%

Source: *Local Government Finance Circular 9/2016*, Scottish Government, December 2016. Figures include general and specific capital grants but exclude funds distributed to Strathclyde Partnership for Transport. There are minor differences in the figures outlined in Draft Budget 2017/18 and those in the Local Government Finance Circular. This is mainly due to the circular including a small number of funds, totalling approximately £120 million, which are not included with the draft budget.

APPENDIX B:

A summary of publications the Scottish Government published in December 2016 alongside Draft Budget 2017/18

Public Sector Pay Policy 2017/18

1. In December 2016, the Scottish Government published a new public sector pay policy for 2017/18. The policy only directly affects the pay of Scottish Government staff, and the staff of around 40 public bodies. Other parts of the public sector, such as local government and the NHS are not directly covered by the policy and determine pay separately.
2. The main features of the pay policy are:
 - a one per cent cap on the cost of the increase in basic pay for staff earning above £22,000
 - a minimum basic pay increase of £400 for those earning less than £22,000, before progression payments (to be awarded on a pro-rata basis for part-time staff); the costs of this are not included in the one per cent cap
 - a continued commitment to paying a Scottish living wage (currently at £8.45 per hour)
 - a continued suspension of non-consolidated performance related pay (bonuses)
 - discretion for individual employers to reach agreements relating to pay progression, whereby employees progress through set pay bands on an annual basis, regardless of the basic pay settlement
 - a continued commitment to no compulsory redundancies, to be negotiated by individual employers in exchange for agreements on workforce flexibilities and efficiencies where appropriate.

Scotland Performs Update

3. The update to Scotland Performs published in December 2016 the Scottish Government has included a Performance Scorecard which maps the National Performance Framework to most of the Scottish Parliament's subject committees. This provides an update on performance for relevant indicators as at 15 December 2016. For the Local Government and Communities Committee 29 performance indicators are highlighted:
 - 8 indicators, including areas such as increasing the number of businesses and improving children's services, are shown to be improving
 - 16 indicators, including increasing the proportion of schools receiving positive inspection reports and increasing the number of new homes, are shown to have maintained performance.
 - 5 indicators, including improving levels of educational attainment and improving the perception of public services, are shown to be worsening.

Equality Statement Scottish Draft Budget 2017/18

4. Alongside the draft budget, the Scottish Government published an Equality Statement. The Statement aims to provide an understanding of the impact of spending decisions and help provide information about how to target resources to

improve equality in each of the main spending portfolios. The Scottish Government states that an equalities assessment helps them to identify mitigating actions where impacts are, or appear to be, negative for progressing equality.

5. In relation to local government, the Statement highlights equalities issues being addressed through:
 - the general funding formula using needs-based indicators, such as population and relative deprivation
 - maintaining teacher numbers in schools to ensure a consistent level of educational experience for all pupils regardless of background
 - directing resources to Integration Authorities to ensure care is focused on prevention and early intervention as well as individuals' needs.